

PEKIN COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2008

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
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NEWS RELEASE

Nolte, Cornman & Johnson P.C. today released an audit report on the Pekin Community School District in Packwood, Iowa.

The District's revenues totaled \$8,408,521 for the year ended June 30, 2008, a 4.92% increase from the prior year. Revenues included \$3,285,942 in local tax, charges for service of \$1,085,024, operating grants, contributions and restricted interest of \$1,011,746, unrestricted state grants of \$2,863,044, unrestricted interest of \$90,622 and other general revenues of \$71,643.

Expenses for District operations totaled \$8,072,129, a 5.74% increase from the prior year. Expenses included \$3,227,570 in regular instruction, \$918,298 in other instruction and \$825,341 in special instruction.

A copy of the audit report is available for review in the District Secretary's office, the office of the Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

# Contents

		<u>Page</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	13
Statement of Activities	B	14
Governmental Fund Financial Statements:		
Balance Sheet	C	15
Reconciliation of the Balance Sheet - Governmental Funds to the Statement of Net Assets	D	16
Statement of Revenues, Expenditures and Changes in Fund Balances	E	17
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds to the Statement of Activities	F	18
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	19
Statement of Revenues, Expenses and Changes in Net Assets	H	20
Statement of Cash Flows	I	21
Notes to Financial Statements		22-32
Required Supplementary Information:		
Budgetary Comparison Schedule of Revenues, Expenditures and Changes in Balances - Budget and Actual - All Governmental Funds and Proprietary Fund		33
Notes to Required Supplementary Information - Budgetary Reporting		34
Other Supplementary Information:	<u>Schedule</u>	
Nonmajor Governmental Funds:		
Combining Balance Sheet	1	35
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	36
Schedule of Changes in Special Revenue Fund, Student Activity Accounts	3	37
Schedule of Revenues by Source and Expenditures by Function - All Governmental Fund Types	4	38
Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		39-40
Schedule of Findings		41-44

Pekin Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b>		
<b>(Before September 2007 Election)</b>		
David Hollinsworth	President	2008
David Bennett	Vice-President	2009
Mike Spilman	Board Member	2007
Greg Millikin	Board Member	2007
Andrew Adam	Board Member	2008
Don Deutsch	Board Member	2009
Harlan Van Voorst	Board Member	2009
<b>Board of Education</b>		
<b>(After September 2007 Election)</b>		
David Hollinsworth	President	2011
David Bennett	Vice-President	2009
Steve Copeland	Board Member	2011
Greg Millikin	Board Member	2011
Andrew Adam	Board Member	2011
Don Deutsch	Board Member	2009
Harlan Van Voorst	Board Member	2009
<b>School Officials</b>		
Dr. Roger Macklem	Superintendent	2008
Connie Linney	District Secretary/Treasurer and Business Manager	2008
Richard Gaumer	Attorney	2008

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Pekin Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Pekin Community School District, Pekin, Iowa as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Pekin Community School District at June 30, 2008, and the respective changes in financial position and cash flows, where applicable, for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated March 2, 2009 on our consideration of Pekin Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 12 and 33 through 34 are not required parts of the basic financial statements, but are supplementary

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information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Pekin Community School District's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 2, 2009

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Pekin Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2008. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2008 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$6,218,170 in fiscal 2007 to \$6,628,586 in fiscal 2008, while General Fund expenditures increased from \$6,200,778 in fiscal 2007 to \$6,489,755 in fiscal 2008. This resulted in an increase in the District's General Fund balance from \$357,304 in fiscal 2007 to a balance of \$496,135 in fiscal 2008, a 38.86% increase from the prior year.
- The increase in General Fund revenues was attributable to an increase in state sources in fiscal 2008. The increase in expenditures was due primarily to an increase in the salary and benefits in the instruction functional area.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Pekin Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Pekin Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Pekin Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Pekin Community School District Annual Financial Report***

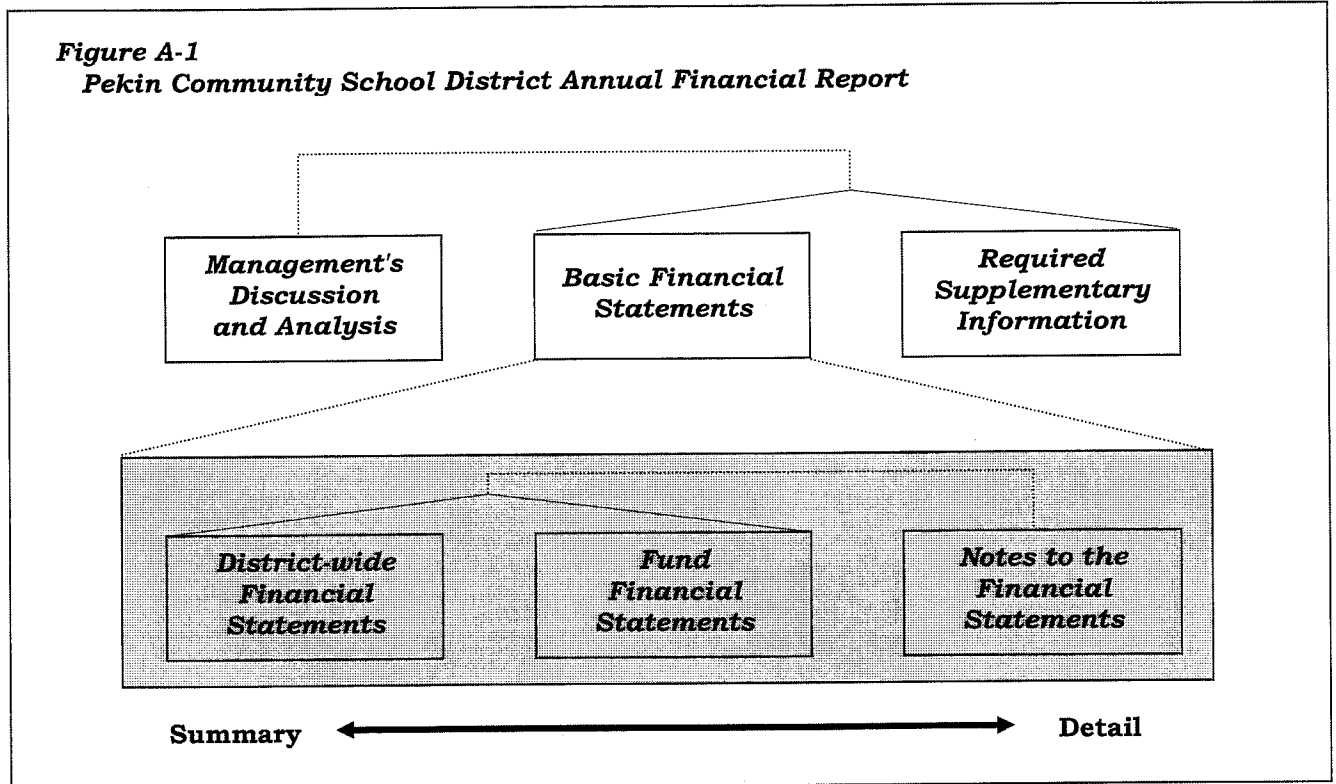


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2 Major Features of the Government-wide and Fund Financial Statements</b>			
	Government-wide Statements	Fund Statements	
		Governmental Funds	Proprietary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and adult education
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of Net Assets</li> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.

The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as

changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition and day care programs are included here.

## **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has two kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's Enterprise Funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Funds, the School Nutrition Fund and the Day Care Fund.

The required financial statements for the proprietary funds include a statement of revenues, expenses and changes in net assets and a statement of cash flows.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Current and other assets	\$ 5,481,804	5,052,964	80,164	70,020	5,561,968	5,122,984	8.57%
Capital assets	3,315,964	3,363,854	471,371	483,688	3,787,335	3,847,542	-1.56%
Total assets	8,797,768	8,416,818	551,535	553,708	9,349,303	8,970,526	4.22%
Long-term obligations	144,554	152,471	0	0	144,554	152,471	-5.19%
Other liabilities	3,688,585	3,627,361	5,011	15,933	3,693,596	3,643,294	1.38%
Total liabilities	3,833,139	3,779,832	5,011	15,933	3,838,150	3,795,765	1.12%
Net assets:							
Invested in capital assets, net of related debt	3,300,651	3,238,854	471,371	483,688	3,772,022	3,722,542	1.33%
Restricted	1,100,897	999,731	0	0	1,100,897	999,731	10.12%
Unrestricted	563,081	398,401	75,153	54,087	638,234	452,488	41.05%
Total net assets	\$ 4,964,629	4,636,986	546,524	537,775	5,511,153	5,174,761	6.50%

The District's combined net assets increased by 6.50%, or \$336,392, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted Net Assets - resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used - increased \$101,166, or 10.12%. The increase was primarily a result of the District receiving more in Local Option Sales and Services Tax monies increasing the Capital Projects Fund balance.

Unrestricted Net Assets - the part of net assets, that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements, increased \$185,746, or 41.05%. This increase in unrestricted net assets was a result of the District's increase in the General Fund balance.

Figure A-4 shows the changes in net assets for the year ended June 30, 2008 compared to June 30, 2007.

Figure A-4 Changes of Net Assets							
	Governmental Activities		Business-type Activities		Total School District		Total Change
	2008	2007	2008	2007	2008	2007	2007-08
Revenues and transfers:							
Program revenues:							
Charges for services	\$ 733,826	667,065	351,698	300,536	1,085,524	967,601	12.19%
Operating grants and contributions and restricted interest	861,126	777,895	150,620	153,318	1,011,746	931,213	8.65%
General revenues:							
Property tax	2,713,156	2,625,595	0	0	2,713,156	2,625,595	3.33%
Income surtax	156,088	181,662	0	0	156,088	181,662	-14.08%
Local option sales and services tax	416,698	413,118	0	0	416,698	413,118	0.87%
Unrestricted state grants	2,863,044	2,606,358	0	0	2,863,044	2,606,358	9.85%
Other	161,571	284,425	694	1,168	162,265	285,593	-43.18%
Transfers	(38,919)	0	38,919	3,049	0	3,049	-100.00%
Total revenues	7,866,590	7,556,118	541,931	458,071	8,408,521	8,014,189	4.92%
Program expenses:							
Governmental activities:							
Instruction	4,971,209	4,610,993	0	0	4,971,209	4,610,993	7.81%
Support services	2,046,640	1,835,654	0	0	2,046,640	1,835,654	11.49%
Non-instructional programs	59,436	25,834	533,182	480,503	592,618	506,337	17.04%
Other expenses	461,662	681,017	0	0	461,662	681,017	-32.21%
Total expenses	7,538,947	7,153,498	533,182	480,503	8,072,129	7,634,001	5.74%
Changes in net assets	327,643	402,620	8,749	(22,432)	336,392	380,188	-11.52%
Beginning net assets	4,636,986	4,234,366	537,775	560,207	5,174,761	4,794,573	7.93%
Ending net assets	\$ 4,964,629	4,636,986	546,524	537,775	5,511,153	5,174,761	6.50%

In fiscal 2008, property tax, income surtax, local option sales and services tax and unrestricted state grants account for 78.17% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 92.22% of the revenue from business type activities.

The District's total revenues were approximately \$8.4 million of which \$7.9 million was for governmental activities \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 4.51% increase in revenues and a 5.31% increase in expenses. The increase in expenses is related to an increase in the negotiated salary and benefits, as well as increases in utilities and transportation costs.

### Governmental Activities

Revenues for governmental activities were \$7,866,590 and expenses were \$7,538,947. In a difficult budget year, the District was able to balance the budget by trimming expenses to match available revenues.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services			Net Cost of Services		
	2008	2007	Change 2007-08	2008	2007	Change 2007-08
Instruction	\$ 4,971,209	4,610,993	7.81%	3,617,158	3,385,357	6.85%
Support services	2,046,640	1,835,654	11.49%	2,045,139	1,831,617	11.66%
Non-instructional programs	59,436	25,834	130.07%	59,436	25,834	130.07%
Other expenses	461,662	681,017	-32.21%	222,262	465,730	-52.28%
Totals	<u>\$ 7,538,947</u>	<u>7,153,498</u>	<u>5.39%</u>	<u>5,943,995</u>	<u>5,708,538</u>	<u>4.12%</u>

For the year ended June 30, 2008:

- The cost financed by users of the District's programs was \$733,826.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$861,126.
- The net cost of governmental activities was financed with \$2,713,156 in property tax, \$156,088 in income surtax, \$416,698 in local option sales and services tax, \$2,863,044 in unrestricted state grants, \$89,928 in interest income and \$71,643 in other general revenues.

### Business-Type Activities

Revenues of the District's business-type activities were \$509,291 and expenses were \$500,542. The District's business-type activities include the School Nutrition Fund and the Day Care Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

### INDIVIDUAL FUND ANALYSIS

As previously noted, the Pekin Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds, as well. As the District completed the year, its governmental funds reported combined fund balance of \$1,649,262, above last year's ending fund balances of \$1,281,988. However, the primary reason for the increase in combined fund balances in fiscal 2008 is due to the District receiving more monies from state sources.

### Governmental Fund Highlights

- The District's increase in General Fund financial position is the product of many factors. During the year total expenses were less than total revenues allowing the fund balance to increase \$138,831.
- The Capital Projects Fund balance increased from \$619,052 in fiscal 2007 to \$817,901 in fiscal 2008. This increase was the result of the increase in revenues being greater than the increase in expenditures throughout the year.

## Proprietary Fund Highlights

The Proprietary Funds net assets increased from \$537,775 at June 30, 2007 to \$546,524 at June 30, 2008, representing an increase of 1.63%. For fiscal 2008, the District had an increase in revenues greater than the increase in expenditures resulting in an increase in the fund balances.

## BUDGETARY HIGHLIGHTS

The District's revenues were \$96,404 less than budgeted revenues, a variance of 1.13%. The most significant variance resulted from the District receiving less in state sources than originally anticipated.

Total expenditures were less than budgeted, due primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, during the year ended June 30, 2008 the District exceeded its General Fund unspent authorized budget.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At June 30, 2008, the District had invested \$3.8 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net decrease of 1.56% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$361,184.

The original cost of the District's capital assets was \$7.8 million. Governmental funds account for \$7.2 million with the remainder of \$.6 million in the Proprietary funds.

The largest change in capital asset activity during the year occurred in the land improvements category. The District's land improvements totaled \$133,891 at June 30, 2008, compared to \$150,420 reported at June 30, 2007. This decrease resulted from depreciation expense incurred during the year.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total School District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-08
Land	\$ 236,245	236,245	0	0	236,245	236,245	0.00%
Buildings	2,559,591	2,567,461	404,857	446,913	2,964,448	3,014,374	-1.68%
Land improvements	138,891	150,420	0	0	138,891	150,420	-8.30%
Machinery and equipment	381,237	409,728	66,514	36,775	447,751	446,503	0.28%
Total	\$ 3,315,964	3,363,854	471,371	483,688	3,787,335	3,847,542	-1.56%

## Long-Term Debt

At June 30, 2008, the District had \$144,554 in general obligation and other long-term debt outstanding. This represents a decrease of 5.19% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District paid off the remaining outstanding general obligation bonds during the year ended June 30, 2008.

The District had a capital loan outstanding of \$15,313 at June 30, 2008.

The District had total outstanding early retirement payable from the Special Revenue, Management Levy Fund of \$129,241 at June 30, 2008.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2008	2007	2007-08
General obligation bonds	\$ 0	125,000	-100.00%
Capital loan	15,313	0	100.00%
Early retirement	129,241	27,471	370.46%
Totals	<u>\$ 144,554</u>	<u>152,471</u>	<u>-5.19%</u>

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of several existing circumstances that could significantly affect its financial health in the future:

- There has been some discussion of building a new gym/drama stage along with a couple more classrooms. The estimated costs of these projects are \$4-5 million.
- Low allowable growth over several years and enrollment decreases may negatively impact the District's spending authority. Contractual increases and program changes cannot be made without thorough consideration of our unspent authorized budget. The district's cash balance will support short term funding shortfalls from the state.
- Continued budget concerns at state level will affect future projections. The District has been forced to shift funding to property taxes.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Connie Linney, District Secretary/Treasurer, Pekin Community School District, 1062 Birch Avenue, Packwood, Iowa, 52580.

BASIC FINANCIAL STATEMENTS

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2008

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Cash and pooled investments:			
ISCAP (Note 4)	\$ 595,437	0	595,437
Other	1,384,720	48,679	1,433,399
Receivables:			
Property tax:			
Delinquent	55,863	0	55,863
Succeeding year	3,003,617	0	3,003,617
Income surtax	144,021	0	144,021
Accounts	178,610	13,199	191,809
Accrued interest - ISCAP (Note 4)	6,156	0	6,156
Due from other governments	113,380	0	113,380
Inventories	0	18,286	18,286
Capital assets, net of accumulated depreciation (Note 5)	3,315,964	471,371	3,787,335
<b>Total assets</b>	<b>8,797,768</b>	<b>551,535</b>	<b>9,349,303</b>
<b>Liabilities</b>			
Accounts payable	67,754	0	67,754
Salaries and benefits payable	10,605	0	10,605
ISCAP warrants payable (Note 4)	592,000	0	592,000
ISCAP accrued interest payable (Note 4)	4,697	0	4,697
ISCAP unamortized premium	9,848	0	9,848
Accrued interest payable	64	0	64
Deferred revenue:			
Succeeding year property tax	3,003,617	0	3,003,617
Unearned revenue	0	5,011	5,011
Long-term liabilities (Note 6):			
Portion due within one year:			
Early retirement payable	31,609	0	31,609
Capital loan	5,104	0	5,104
Portion due after one year:			
Early retirement payable	97,632	0	97,632
Capital loan	10,209	0	10,209
<b>Total liabilities</b>	<b>3,833,139</b>	<b>5,011</b>	<b>3,838,150</b>
<b>Net assets</b>			
Invested in capital assets, net of related debt	3,300,651	471,371	3,772,022
Restricted for:			
Debt service	35,101	0	35,101
Talented and gifted	17,556	0	17,556
Salary improvement program	551	0	551
Professional development	1,139	0	1,139
Market factor incentives	3,962	0	3,962
Early intervention	30,793	0	30,793
Capital projects	817,901	0	817,901
Physical plant and equipment levy	114,803	0	114,803
Other special revenue purposes	79,091	0	79,091
Unrestricted	563,081	75,153	638,234
<b>Total net assets</b>	<b>\$ 4,964,629</b>	<b>546,524</b>	<b>5,511,153</b>

SEE NOTES TO FINANCIAL STATEMENTS.

Exhibit B

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2008

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Governmental Activities	Business-Type Activities	
Functions/Programs						
Governmental activities:						
Instruction:						
Regular instruction	\$ 3,227,570	348,452	581,601	(2,297,517)	0	(2,297,517)
Special instruction	825,341	19,945	38,624	(766,772)	0	(766,772)
Other instruction	918,298	365,429	0	(552,869)	0	(552,869)
	<u>4,971,209</u>	<u>733,826</u>	<u>620,225</u>	<u>(3,617,158)</u>	<u>0</u>	<u>(3,617,158)</u>
Support services:						
Student services	92,250	0	0	(92,250)	0	(92,250)
Instructional staff services	202,030	0	0	(202,030)	0	(202,030)
Administration services	602,749	0	0	(602,749)	0	(602,749)
Operation and maintenance of plant services	558,426	0	0	(558,426)	0	(558,426)
Transportation services	591,185	0	1,501	(589,684)	0	(589,684)
	<u>2,046,640</u>	<u>0</u>	<u>1,501</u>	<u>(2,045,139)</u>	<u>0</u>	<u>(2,045,139)</u>
Non-instructional programs	59,436	0	0	(59,436)	0	(59,436)
Other expenditures:						
Facilities and acquisitions	59,976	0	0	(59,976)	0	(59,976)
Long-term debt interest	5,378	0	0	(5,378)	0	(5,378)
AEA flowthrough	239,400	0	239,400	0	0	0
Depreciation(unallocated)*	156,908	0	0	(156,908)	0	(156,908)
	<u>461,662</u>	<u>0</u>	<u>239,400</u>	<u>(222,262)</u>	<u>0</u>	<u>(222,262)</u>
Total governmental activities	7,538,947	733,826	861,126	(5,943,995)	0	(5,943,995)
Business-Type activities:						
Non-instructional programs:						
Nutrition services	284,835	130,729	150,620	0	(3,486)	(3,486)
Day care services	248,347	220,969	0	0	(27,378)	(27,378)
Total business-type activities	<u>533,182</u>	<u>351,698</u>	<u>150,620</u>	<u>0</u>	<u>(30,864)</u>	<u>(30,864)</u>
Total	<u>\$ 8,072,129</u>	<u>1,085,524</u>	<u>1,011,746</u>	<u>(5,943,995)</u>	<u>(30,864)</u>	<u>(5,974,859)</u>
General Revenues and transfers:						
General revenues:						
Property tax for:						
General purposes				\$ 2,470,972	0	2,470,972
Debt service				130,056	0	130,056
Capital outlay				112,128	0	112,128
Income surtax				156,088	0	156,088
Local option sales and services tax				416,698	0	416,698
Unrestricted state grants				2,863,044	0	2,863,044
Unrestricted investment earnings				89,928	694	90,622
Other general revenues				71,643	0	71,643
Transfers				(38,919)	38,919	0
Total general revenues and transfers				<u>6,271,638</u>	<u>39,613</u>	<u>6,311,251</u>
Changes in net assets				327,643	8,749	336,392
Net assets beginning of year				4,636,986	537,775	5,174,761
Net assets end of year				<u>\$ 4,964,629</u>	<u>546,524</u>	<u>5,511,153</u>

\* This amount excludes the depreciation that is included in the direct expense of various programs.

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>Assets</b>				
Cash and pooled investments:				
ISCAP (Note 4)	\$ 595,437	0	0	595,437
Other	416,437	639,951	328,332	1,384,720
Receivables:				
Property tax:				
Delinquent	47,793	0	8,070	55,863
Succeeding year	2,524,084	0	479,533	3,003,617
Income surtax	90,013	0	54,008	144,021
Accounts	602	177,950	58	178,610
Accrued interest - ISCAP (Note 4)	6,156	0	0	6,156
Due from other governments	113,380	0	0	113,380
<b>Total assets</b>	<b>\$ 3,793,902</b>	<b>817,901</b>	<b>870,001</b>	<b>5,481,804</b>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	\$ 66,520	0	1,234	67,754
Salaries and benefits payable	10,605	0	0	10,605
ISCAP warrants payable (Note 4)	592,000	0	0	592,000
ISCAP accrued interest payable (Note 4)	4,697	0	0	4,697
ISCAP unamortized premium	9,848	0	0	9,848
Deferred revenue:				
Succeeding year property tax	2,524,084	0	479,533	3,003,617
Income surtax	90,013	0	54,008	144,021
Total liabilities	<b>3,297,767</b>	<b>0</b>	<b>534,775</b>	<b>3,832,542</b>
Fund balances:				
Reserved for:				
Debt service	0	0	35,101	35,101
Talented and gifted	17,556	0	0	17,556
Salary improvement program	551	0	0	551
Professional development	1,139	0	0	1,139
Market factor incentives	3,962	0	0	3,962
Early intervention	30,793	0	0	30,793
Unreserved	442,134	817,901	300,125	1,560,160
Total fund balances	<b>496,135</b>	<b>817,901</b>	<b>335,226</b>	<b>1,649,262</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,793,902</b>	<b>817,901</b>	<b>870,001</b>	<b>5,481,804</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2008

<b>Total fund balances of governmental funds (page 15)</b>	\$ 1,649,262
<b><i>Amounts reported for governmental activities in the statement of net assets are different because:</i></b>	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.	3,315,964
Accounts receivable income surtax, are not yet available to finance expenditures of the current period.	144,021
Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.	(64)
Long-term liabilities, including bonds payable, capital loans payable, and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.	<u>(144,554)</u>
<b>Net assets of governmental activites (page 13)</b>	<u><u>\$ 4,964,629</u></u>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2008

	General	Capital Projects	Other Nonmajor Governmental Funds	Total
<b>REVENUES:</b>				
Local sources:				
Local tax	\$ 2,419,253	416,698	449,991	3,285,942
Tuition	356,368	0	0	356,368
Other	129,596	19,443	389,990	539,029
State sources	3,527,064	0	801	3,527,865
Federal sources	196,305	0	0	196,305
Total revenues	6,628,586	436,141	840,782	7,905,509
<b>EXPENDITURES:</b>				
Current:				
Instruction:				
Regular instruction	3,048,540	0	46,605	3,095,145
Special instruction	825,341	0	0	825,341
Other instruction	544,590	0	376,104	920,694
	4,418,471	0	422,709	4,841,180
Support services:				
Student services	90,808	0	1,442	92,250
Instructional staff services	121,765	15,000	65,265	202,030
Administration services	578,618	0	33,023	611,641
Operation and maintenance of plant services	562,014	0	36,878	598,892
Transportation services	421,243	135,200	24,071	580,514
	1,774,448	150,200	160,679	2,085,327
Non-instructional programs	57,436	0	2,000	59,436
Other expenditures:				
Facilities acquisitions	0	87,092	110,393	197,485
Long-term debt:				
Principal	0	0	130,105	130,105
Interest and fiscal charges	0	0	5,720	5,720
AEA flowthrough	239,400	0	0	239,400
	239,400	87,092	246,218	572,710
Total expenditures	6,489,755	237,292	831,606	7,558,653
Excess of revenues over expenditures	138,831	198,849	9,176	346,856
Other financing sources(uses):				
Proceeds from loan	0	0	20,418	20,418
Transfers in	0	0	5,950	5,950
Transfers out	0	0	(5,950)	(5,950)
Total other financing sources(uses)	0	0	20,418	20,418
Net change in fund balances	138,831	198,849	29,594	367,274
Fund balances beginning of year	357,304	619,052	305,632	1,281,988
Fund balances end of year	\$ 496,135	817,901	335,226	1,649,262

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2008

Net change in fund balances - total governmental funds (page 17) \$ 367,274

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. The amounts of capital outlays and depreciation expense in the year are as follows:

Capital outlays	\$ 294,698	
Depreciation expense	(342,588)	(47,890)

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year repayments and issuances, are as follows:

Issued	\$ (20,418)	
Repaid	130,105	109,687

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

342

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement		(101,770)
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Changes in net assets of governmental activities (page 14) \$ 327,643

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUND  
JUNE 30, 2008

	School Nutrition	Day Care	Total
<b>Assets</b>			
Cash and pooled investments	\$ 36,100	12,579	48,679
Accounts receivable	0	13,199	13,199
Inventories	18,286	0	18,286
Capital assets, net of accumulated depreciation (Note 5)	14,845	456,526	471,371
<b>Total assets</b>	<b>69,231</b>	<b>482,304</b>	<b>551,535</b>
<b>Liabilities</b>			
Unearned revenue	5,011	0	5,011
<b>Net Assets</b>			
Invested in capital assets	14,845	456,526	471,371
Unrestricted	49,375	25,778	75,153
<b>Total net assets</b>	<b>\$ 64,220</b>	<b>482,304</b>	<b>546,524</b>

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 130,729	220,969	351,698
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	87,579	136,477	224,056
Benefits	28,682	53,094	81,776
Services	1,155	0	1,155
Supplies	160,551	13,018	173,569
Other	1,390	0	1,390
Depreciation	5,478	13,118	18,596
TOTAL OPERATING EXPENSES	284,835	215,707	500,542
OPERATING INCOME (LOSS)	(154,106)	5,262	(148,844)
NON-OPERATING REVENUES (EXPENSES):			
State sources	4,361	0	4,361
Federal sources	146,259	0	146,259
Interest on investments	694	0	694
Loss on disposal of assets	0	(32,640)	(32,640)
TOTAL NON-OPERATING REVENUES (EXPENSES)	151,314	(32,640)	118,674
Changes in net asset before capital contributions	(2,792)	(27,378)	(30,170)
Capital contributions	0	38,919	38,919
Changes in net assets	(2,792)	11,541	8,749
Net assets beginning of year	67,012	470,763	537,775
Net assets end of year	\$ 64,220	482,304	546,524

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUND  
YEAR ENDED JUNE 30, 2008

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 131,340	0	131,340
Cash received from miscellaneous	71	209,870	209,941
Cash payments to employees for services	(116,261)	(201,175)	(317,436)
Cash payments to suppliers for goods or services	(144,514)	(13,018)	(157,532)
Net cash used in operating activities	(129,364)	(4,323)	(133,687)
Cash flows from non-capital financing activities:			
State grants received	4,361	0	4,361
Federal grants received	124,647	0	124,647
Net cash provided by non-capital financing activities	129,008	0	129,008
Cash flows from investing activities:			
Interest on investments	694	0	694
Net increase(decrease) in cash and cash equivalents	338	(4,323)	(3,985)
Cash and cash equivalents at beginning of year	35,762	16,902	52,664
Cash and cash equivalents at end of year	\$ 36,100	12,579	48,679
Reconciliation of operating income (loss) to net cash used in operating activities:			
Operating income (loss)	\$ (154,106)	5,262	(148,844)
Adjustments to reconcile operating income (loss) to net cash used in operating activities:			
Commodities consumed	21,612	0	21,612
Depreciation	5,478	13,118	18,596
Increase in inventories	(3,030)	0	(3,030)
Increase in accounts receivable	0	(11,099)	(11,099)
Decrease in salaries and benefits payable	0	(11,604)	(11,604)
Increase in unearned revenue	682	0	682
Net cash used in operating activities	\$ (129,364)	(4,323)	(133,687)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 36,100	12,579	48,679

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2008, the District received Federal commodities valued at \$21,612.

During the year ended June 30, 2008, the District received capital contributions valued at \$38,919 from the Special Revenue, Physical Plant and Equipment Levy Fund.

SEE NOTES TO FINANCIAL STATEMENTS.

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008

(1) **Summary of Significant Accounting Policies**

The Pekin Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve and special education pre-kindergarten. Additionally, the District either operates or sponsors various adult education programs. These courses include remedial education as well as vocational and recreational courses. The geographic area served includes the cities of Pekin and Packwood, Iowa, and the predominate agricultural territory in Washington, Keokuk, Wapello and Jefferson Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Pekin Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Pekin Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Washington, Keokuk, Wapello and Jefferson Counties Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The District's proprietary funds are the School Nutrition and Day Care Fund. The Nutrition fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the child care operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded

when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value except for the investment in the Iowa Schools Joint Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2007.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 2,000
Buildings	2,000
Land improvements	2,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Day Care Fund equipment	500
Other machinery and equipment	2,000

Capital assets are depreciated using the straight line method of depreciation over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	20 years
Machinery and equipment	5-20 years

Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the statement of net assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Unearned Revenue - Unearned revenues in the School Nutrition Fund are monies collected for lunches that have not yet been served. The lunch account balances will either be reimbursed or served lunches. The unearned revenues in the Day Care Fund are monies collected in advance for tuition. The revenue will be considered earned when services are provided. The tuition and lunch account balances are reflected on the Statement of Net Assets in the Proprietary Funds.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Balances - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, the District exceeded its General Fund unspent authorized budget.

(2) **Cash and Pooled Investments**

The District's deposits at June 30, 2008 were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2008, the District had investments in the Iowa Schools Joint Investment Trust as follows:

	<u>Amortized Cost</u>
Diversified Portfolio	<u>\$ 876,348</u>

The investments are valued at an amortized cost pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk. The investments in the Iowa Schools Joint Investment Trust were both rated Aaa by Moody's Investors Service.

(3) **Transfers**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Physical Plant and	
	Equipment Levy	\$ 5,950

(4) Iowa School Cash Anticipation Program (ISCAP)

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Bankers Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2008 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2007-08A	6/27/07	6/26/08	\$ 0	1,811	0	0
2007-08B	1/23/08	1/23/09	281,902	4,226	281,000	4,578
2008-09A	6/26/08	6/23/09	313,535	119	311,000	119
Total			\$ 595,437	6,156	592,000	4,697

The District pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. ISCAP advance activity in the General Fund for the year ended June 30, 2008 is as follows:

Series	Balance Beginning of Year	Advances Received	Advances Repaid	Balance End of Year
2007-08A	\$ 0	230,000	230,000	0

The warrants bear interest and the available proceeds of the warrants are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2007-08A	4.500%	5.448%
2007-08B	3.750%	3.451%
2008-09A	3.500%	3.469%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 236,245	0	0	236,245
Total capital assets not being depreciated	236,245	0	0	236,245
Capital assets being depreciated:				
Buildings	4,707,275	135,415	0	4,842,690
Land improvements	504,174	2,094	0	506,268
Machinery and equipment	1,574,553	157,189	123,855	1,607,887
Total capital assets being depreciated	6,786,002	294,698	123,855	6,956,845
Less accumulated depreciation for:				
Buildings	2,139,814	143,285	0	2,283,099
Land improvements	353,754	13,623	0	367,377
Machinery and equipment	1,164,825	185,680	123,855	1,226,650
Total accumulated depreciation	3,658,393	342,588	123,855	3,877,126
Total capital assets being depreciated, net	3,127,609	(47,890)	0	3,079,719
Governmental activities capital assets, net	\$ 3,363,854	(47,890)	0	3,315,964

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Business-type activities:				
Capital assets being depreciated:				
Buildings	\$ 518,783	0	48,000	470,783
Machinery and equipment	129,343	38,919	0	168,262
Total capital assets being depreciated	648,126	38,919	48,000	639,045
Less accumulated depreciation for:				
Buildings	71,870	9,416	15,360	65,926
Machinery and equipment	92,568	9,180	0	101,748
Total accumulated depreciation	164,438	18,596	15,360	167,674
Total capital assets being depreciated, net	483,688	20,323	32,640	471,371
Business-type activities capital assets, net	\$ 483,688	20,323	32,640	471,371

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 34,315
Other	599
Support services:	
Administration	1,442
Operation and maintenance of plant	3,453
Transportation	145,871
	185,680
Unallocated depreciation	156,908
Total governmental activities depreciation expense	\$ 342,588
Business-type activities:	
Food service operations	\$ 5,478
Day care operations	13,118
Total business-type activities depreciation expense	\$ 18,596

#### (6) Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General obligation bonds	\$ 125,000	0	125,000	0	0
Early retirement	27,471	111,626	9,856	129,241	31,609
Capital loan	0	20,418	5,105	15,313	5,104
Total	\$ 152,471	132,044	139,961	144,554	36,713

#### General Obligation Bonds Payable

The District paid off the remaining balance of its general obligation bonds during the year ended June 30, 2008.

### Capital Loan Payable

Details of the District's June 30, 2008 capital loan indebtedness are as follows:

Year Ending June 30,	Bond Issue of August 1, 2007				
	Interest Rates	Principal	Interest	Total	
2009	4.971 %	\$ 5,104	762	5,866	
2010	4.971	5,105	507	5,612	
2011	4.971	5,104	254	5,358	
Total		\$ 15,313	1,523	16,836	

### Early Retirement

The District offers a voluntary early retirement plan to its certified employees. Eligible employees must be at least age fifty-five and must have completed fifteen years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. The early retirement incentive for each eligible employee is equal to 50% of the employee's base salary calculated by using the current year regular salary schedule, less any other additional pay and subject to a maximum of \$20,000 per individual. Early retirement benefits paid during the year ended June 30, 2008 totaled \$9,856. A liability has been recorded in the Statement of Net Assets representing the District's commitment to fund non-current early retirement.

### **(7) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.90% of their annual covered salary and the District is required to contribute 6.05% of annual covered payroll for the years ended June 30, 2008, 2007 and 2006. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$246,211, \$225,832 and \$214,703, respectively, equal to the required contributions for each year.

### **(8) Risk Management**

Pekin Community School District is a member in the Southeast Iowa School Employees Benefits Health Plan, an Iowa Code Chapter 28E organization. The Southeast Iowa School Employees Benefits Health Plan (SEISHP) is a local government risk-sharing pool whose members include various schools throughout the State of Iowa.

SEISHP was for the purpose of managing and funding employee benefits. SEISHP provides coverage and protection in the following categories: medical and dental.

Each member's contributions to SEISHP funds current operations and provides capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, SEISHP's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital.

The District's contributions to the risk pool are recorded as expenditures from its General Fund at the time of payment to the risk pool. District contributions to SEISHP for the year ended June 30, 2008 was \$508,797.

Payments from participating members are used to buy health insurance from Wellmark and paying dental and vision claims. In the event that claims exceed premiums and reserves, an assessment may be necessary to pay claims and replenish reserves in the program.

Most members agree to continue membership in the pool for a period of not less than one full year. After such a period, a member who has given 30 days prior written notice may withdraw. SEISHP will pay claims incurred before the termination date.

Pekin Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(9) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$239,400 for the year ended June 30, 2008 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(10) Budget overexpenditure**

During the year ended June 30, 2008, the District exceeded its General Fund unspent authorized budget.

REQUIRED SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2008

	Governmental	Proprietary	Total Actual	Budgeted Amounts		Final to
	Funds	Funds				Actual
	Actual	Actual		Original	Final	Variance
Revenues:						
Local sources	\$ 4,181,339	352,392	4,533,731	4,174,663	4,174,663	359,068
State sources	3,527,865	4,361	3,532,226	3,960,262	3,960,262	(428,036)
Federal sources	196,305	146,259	342,564	370,000	370,000	(27,436)
Total revenues	7,905,509	503,012	8,408,521	8,504,925	8,504,925	(96,404)
Expenditures:						
Instruction	4,841,180	0	4,841,180	5,248,127	5,248,127	406,947
Support services	2,085,327	0	2,085,327	2,502,500	2,502,500	417,173
Non-instructional programs	59,436	533,182	592,618	603,537	603,537	10,919
Other expenditures	572,710	0	572,710	877,833	877,833	305,123
Total expenditures	7,558,653	533,182	8,091,835	9,231,997	9,231,997	1,140,162
Excess(deficiency) of revenues over(under) expenditures	346,856	(30,170)	316,686	(727,072)	(727,072)	1,043,758
Other financing sources, net	20,418	38,919	59,337	0	0	59,337
Excess(deficiency) of revenues and other financing sources over(under) expenditures	367,274	8,749	376,023	(727,072)	(727,072)	1,103,095
Balances beginning of year	1,281,988	537,775	1,819,763	1,408,456	1,408,456	411,307
Balances end of year	\$ 1,649,262	546,524	2,195,786	681,384	681,384	1,514,402

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2007

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparison for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on the GAAP basis. Encumbrances are not recognized on the GAAP basis budget and appropriations lapse at year end.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula.

During the year ended June 30, 2008, the District exceed its General Fund unspent authorized budget.

OTHER SUPPLEMENTARY INFORMATION

PEKIN COMMUNITY SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2008

	Special Revenue Funds					Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Total Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
<b>Assets</b>						
Cash and pooled investments	\$ 103,146	80,267	112,495	295,908	32,424	328,332
Receivables:						
Property tax:						
Current year delinquent	3,085	0	2,308	5,393	2,677	8,070
Succeeding year	350,000	0	129,533	479,533	0	479,533
Income surtax	0	0	54,008	54,008	0	54,008
Accounts	0	58	0	58	0	58
<b>Total assets</b>	<b>\$ 456,231</b>	<b>80,325</b>	<b>298,344</b>	<b>834,900</b>	<b>35,101</b>	<b>870,001</b>
<b>Liabilities and fund balances</b>						
Liabilities:						
Accounts payable	\$ 0	1,234	0	1,234	0	1,234
Deferred revenue:						
Succeeding year property tax	350,000	0	129,533	479,533	0	479,533
Income surtax	0	0	54,008	54,008	0	54,008
Total liabilities	350,000	1,234	183,541	534,775	0	534,775
Fund balances:						
Reserved for debt service	0	0	0	0	35,101	35,101
Unreserved fund balances	106,231	79,091	114,803	300,125	0	300,125
Total fund balances	106,231	79,091	114,803	300,125	35,101	335,226
<b>Total liabilities and fund balances</b>	<b>\$ 456,231</b>	<b>80,325</b>	<b>298,344</b>	<b>834,900</b>	<b>35,101</b>	<b>870,001</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR GOVERNMENTAL FUNDS  
 YEAR ENDED JUNE 30, 2008

	Special Revenue Funds				Total	Total
	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Special Revenue Funds	Debt Service	Other Nonmajor Governmental Funds
REVENUES:						
Local sources:						
Local tax	\$ 149,274	0	170,661	319,935	130,056	449,991
Other	3,000	364,973	22,017	389,990	0	389,990
State sources	671	0	60	731	70	801
TOTAL REVENUES	152,945	364,973	192,738	710,656	130,126	840,782
EXPENDITURES:						
Current:						
Instruction:						
Regular instruction	46,605	0	0	46,605	0	46,605
Other instruction	0	376,104	0	376,104	0	376,104
Support services:						
Student services	1,442	0	0	1,442	0	1,442
Instructional staff	961	0	64,304	65,265	0	65,265
Administration services	32,050	973	0	33,023	0	33,023
Operation and maintenance of plant services	23,460	0	13,418	36,878	0	36,878
Student transportation	24,071	0	0	24,071	0	24,071
Non-instructional programs:						
Food service operation	2,000	0	0	2,000	0	2,000
Other expenditures:						
Facilities acquisitions	0	0	110,393	110,393	0	110,393
Long-term debt:						
Principal	0	0	0	0	130,105	130,105
Interest and fiscal charges	0	0	0	0	5,720	5,720
TOTAL EXPENDITURES	130,589	377,077	188,115	695,781	135,825	831,606
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER)EXPENDITURES	22,356	(12,104)	4,623	14,875	(5,699)	9,176
OTHER FINANCING SOURCES(USES):						
Proceeds from loan	0	0	20,418	20,418	0	20,418
Transfer out	0	0	(5,950)	(5,950)	0	(5,950)
Transfer in	0	0	0	0	5,950	5,950
TOTAL OTHER FINANCING SOURCES(USES):	0	0	14,468	14,468	5,950	20,418
EXCESS(DEFICIENCY)OF REVENUES AND OTHER FINANCING SOURCES OVER(UNDER) EXPENDITURES	22,356	(12,104)	19,091	29,343	251	29,594
FUND BALANCES BEGINNING OF YEAR	83,875	91,195	95,712	270,782	34,850	305,632
FUND BALANCES END OF YEAR	\$ 106,231	79,091	114,803	300,125	35,101	335,226

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
YEAR ENDED JUNE 30, 2008

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Interest	\$ 974	0	974	0
Music Department	1,475	0	0	1,475
HS Cross Country	236	3,959	2,681	1,514
HS Boys Basketball	(97)	5,518	5,139	282
HS Football	4,732	25,578	28,853	1,457
HS Baseball	(97)	17,256	16,542	617
HS Boys Track	7,861	10,701	14,298	4,264
HS Wrestling	(97)	8,743	8,646	0
HS Girls Basketball	(97)	15,211	10,020	5,094
HS Volleyball	987	4,826	5,169	644
HS Softball	753	13,089	13,646	196
HS Girls Track	1,537	8,318	9,090	765
National Honor Society	965	233	0	1,198
Athletics	22,737	21,308	28,745	15,300
Activity Charges	0	12,030	12,030	0
Class of 2008	3,186	0	3,186	0
Class of 2009	0	13,550	10,695	2,855
Class of 2010	0	33	0	33
Milk Machine	6	3,459	2,486	979
Cheerleaders	343	2,447	2,414	376
Concessions	3,281	42,263	42,910	2,634
Dramatics/Musical	1,890	2,567	2,615	1,842
Spanish Club	639	1,427	1,590	476
FFA	3,886	39,286	39,013	4,159
FHA	6,543	7,271	5,111	8,703
Student Music	62	3,591	3,653	0
Student Insurance	0	1,030	1,030	0
Calendar	2,249	1,500	1,938	1,811
Student Activity	572	5,295	5,867	0
Student Council	667	401	536	532
Yearbook	1,861	11,713	11,439	2,135
After Prom	318	12,499	12,449	368
Middle School	10,512	3,573	3,630	10,455
Elementary Concession	0	9,718	9,718	0
Fitness Room	1,921	21	968	974
Industrial Arts	243	190	166	267
Drill Team	404	1,241	1,435	210
8th Grade Field Trip	4,005	51,557	54,406	1,156
Musical	629	0	0	629
Elementary Activities	6,109	3,571	3,989	5,691
Total	\$ 91,195	364,973	377,077	79,091

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

PEKIN COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
 ALL GOVERNMENTAL FUND TYPES  
 FOR THE LAST FIVE YEARS

	Modified Accrual Basis				
	Years Ended June 30,				
	2008	2007	2006	2005	2004
Revenues:					
Local sources:					
Local tax	\$ 3,285,942	3,195,068	2,957,599	2,853,138	2,492,680
Tuition	356,368	305,266	330,893	261,287	260,590
Other	539,029	646,224	494,350	444,753	448,049
State sources	3,527,865	3,146,151	3,079,811	3,053,864	2,806,402
Federal sources	196,305	238,102	261,531	290,661	171,328
Total	\$ 7,905,509	7,530,811	7,124,184	6,903,703	6,179,049
Expenditures:					
Current:					
Instruction:					
Regular instruction	\$ 3,095,145	2,567,486	2,681,722	2,515,018	2,496,323
Special instruction	825,341	681,974	771,791	637,900	708,829
Other instruction	920,694	1,337,699	877,824	925,675	775,570
Support services:					
Student services	92,250	86,846	133,614	105,128	175,913
Instructional staff services	202,030	186,990	154,989	132,051	95,043
Administration services	611,641	713,263	655,076	539,383	522,027
Operation and maintenance of plant services	598,892	525,206	577,475	546,830	690,112
Transportation services	580,514	412,694	607,359	428,914	415,915
Non-instructional programs	59,436	25,834	2,056	127,791	113,669
Other expenditures:					
Facilities acquisitions	197,485	353,805	13,422	294,017	6,000
Long-term debt:					
Principal	125,000	120,000	143,828	266,944	156,789
Interest	10,825	9,315	11,540	21,266	23,450
AEA flow-through	239,400	215,287	205,154	203,860	202,864
Total	\$ 7,558,653	7,236,399	6,835,850	6,744,777	6,382,504

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters

### Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

To the Board of Education of the  
Pekin Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Pekin Community School District as of and for the year ended June 30, 2008, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated March 2, 2009. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered Pekin Community School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Pekin Community School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Pekin Community School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Pekin Community School District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood a misstatement of Pekin Community School District's financial statements that is more than inconsequential will not be prevented or detected by Pekin Community School District's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by Pekin Community School District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-08 is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Pekin Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Pekin Community School District's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the District's responses, we did not audit Pekin Community School District's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of Pekin Community School District and other parties to whom Pekin Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Pekin Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

March 2, 2009

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Basic Financial Statements:

SIGNIFICANT DEFICIENCIES:

- I-A-08 Segregation of Duties - One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that the cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal were all done by the same person.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However the District should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will investigate available alternatives and implement as soon as possible.

Conclusion - Response accepted.

- I-B-08 Supporting Documents for Meal Reimbursements - During our audit we noted two instances of meal reimbursements which lacked a detailed receipt for supporting documentation.

Recommendation - The District has a policy in place stating that employees seeking reimbursement must turn in detailed receipts for all actual and necessary travel expenses. The District should follow their policy and require receipts before expenses are reimbursed.

Response - The District will require that detailed receipts must be turned in for meal reimbursements.

Conclusion - Response accepted

- I-C-08 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over a year.

Recommendation - The District should research the outstanding checks to determine if they should be re-issued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - The District will investigate outstanding checks and deal with them as recommended.

Conclusion - Response accepted.

- I-D-08 Photo Image Checks - We noted during our audit that District receives their checks from the bank as photo images showing only the front of the checks. Chapter 544D.114 of the Code of Iowa requires both the front and back of check images to be retained.

Recommendation - The District should contact the bank to rectify the situation. The District should receive the photo images showing both the front and back of the checks or the original issued check.

Response - Pilot's Grove Bank, Inc. have cleared this with the State Auditor's Office. They will retain electronic records which include the front and back images of checks for a period of up to eleven years. They will provide copies of fronts and backs upon request from the District.

Conclusion - Response acknowledged. Chapter 554D.114 of the Code of Iowa does allow for the retention of records in electronic form. Chapter 291.6 of the Code of Iowa requires as a duty of the Board Secretary preservation of records. Although the bank may have records available to them, the District has not formally or informally identified that the bank is serving as a custodian of the public record. We believe based on an informal advice document from an assistant attorney general that the bank maintaining the electronic check front and back may comply with the requirement of record retention. However, availability and cost of retrieval of those records should be agreed upon. The District has not preserved the records. The bank procedures have identified an option of record retention, but the District should formally identify the bank as custodian of public records. In addition, the District should consider the lack of availability of the backs of the checks in the District's internal control procedures and processes.

- I-E-08 Student Activity Fund - During our audit issues arose about the properness of certain accounts or certain receipts and expenditures collected/paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The student activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in department of education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended from. A more specific example of these instances is as follows:

Recommendation - The purpose of the Student Activity Fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as a part of the education program for the students established under Iowa Administrative Code 281-12.6(1). The District should review the propriety of receipts and expenditures that are recorded in the Student Activity Fund.

Target donations were being receipted into the Student Activity Fund, milk machine account. These donations do not specify the purpose other than instructional supplies; therefore, Target donations should be receipted into the General Fund for instructional supplies purchases.

Response - We have corrected this.

Conclusion - Response accepted.

- I-F-08 Payments to Athletic Officials - We noted during our audit of the Special Revenue, Student Activity Fund that the District writes checks to officials before events and pay the night of the event.

Recommendation - The District should review procedures in place for payments made to officials. Pursuant to a valid contractual agreement between the school board and the officials, which includes terms and conditions for payment and compliance with Chapters 279.29 and 279.30 of the Code of Iowa, officials could be paid the night of the game, after the service has been rendered. For non-contract officials or substitute officials, payment should be made after services have been rendered and audited and allowed

similar to other vendor payments. The district should have a policy and athletic officials should be informed that payment will be made in this manner unless a valid contract exists.

Response - All officials are now on signed contracts and are paid after the game. In the case of substitutes, the check is made out the next day and approved by the Board.

Conclusion - Response accepted.

I-G-08 Payroll Procedures - We noted during our audit that the District is not keeping track of hours worked for coaches who are non-certified staff.

Recommendation - In order to comply with the Department of Labor requirements on wage per hour contracts, the District needs to keep track of the hours worked for non-certified staff coaches.

Response - We will provide time cards and require non-certified coaches to comply.

Conclusion - Response accepted.

PEKIN COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2008

Part II: Other Findings Related to Required Statutory Reporting:

II-A-08 Certified Budget - District disbursements for the year ended June 30, 2008, did not exceed the amount budgeted. However, the District did exceed its unspent authorized budget for the year ended June 30, 2008.

Recommendation - The District should contact the Iowa Department of Education and the School Budget Review Committee to resolve the unspent authorized budget issue.

Response - The Superintendent has worked with consultants to develop our correction plan. It will be presented.

Conclusion - Response accepted.

II-B-08 Questionable Disbursements - We noted during our audit that the District gave gift certificates to individual students from the Student Activity Fund as prizes for attending After Prom. Gift certificates as attendance prizes do not appear to meet the guidelines for public purpose as defined in the Attorney General's opinion dated April 25, 1979.

Recommendation - The District should review the procedures in place, and make necessary adjustments to comply.

Response - After Prom gift cards will be discontinued immediately. Effective June 30, 2009 the After Prom will be totally separate from the school and school accounts.

Conclusion - Response accepted.

II-C-08 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

II-D-08 Business Transactions - No business transactions between the District and District officials were noted.

II-E-08 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-08 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

II-G-08 Certified Enrollment - We noted no variances in the basic enrollment data certified to the Department of Education.

II-H-08 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

II-I-08 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.